

CDBG PROGRAM LOAN GUARANTEE

MISSOURI DEPARTMENT OF ECONOMIC DEVELOPMENT

PURPOSE

Provide gap financing for new or expanding businesses. “Gap” financing means other sources of financing (including bank loans and owner equity) have been maximized, and a gap exists in the total project cost.

AUTHORIZATION

42 USC § 5301 et seq., 24 C.F.R. Part 570; and Missouri’s “Consolidated Plan” submitted to the U.S. Department of Housing and Urban Development.

HOW THE PROGRAM WORKS

Upon application by a city or county, the Department of Economic Development (DED) may guarantee a portion of a loan made to a business. The funds would be provided to the lender upon default and liquidation of collateral.

ELIGIBLE AREAS

Projects can only be in a “non-entitlement” area -
- a city under 50,000 in population or a county under 200,000 in population.

ELIGIBLE SPONSOR APPLICANTS

Cities and counties.

ELIGIBLE BENEFICIARY BUSINESSES

For-profit manufacturing, processing and assembly companies that will have wages above the county average and provide medical benefits are prioritized.

USE OF FUNDS

- ✓ The purchase of new machinery and equipment or working capital is eligible.
- ✓ Refinancing, payout of stockholders, buyouts or lines of credit are not eligible.

APPLICATION PROCEDURE

An application must be submitted by the Sponsor on behalf of the business. Applications are reviewed on a case-by-case basis, subject to fund availability.

FUNDING LIMITS

- DED will guarantee up to 90% or \$400,000 of the principal balance (after liquidation of assets) of a loan made by a financial institution or an industrial revenue bond.
- DED must determine that the borrower has exhausted other funding sources and only the least amount needed to complete the project may be provided.
- The maximum funding available is based on the lesser of \$400,000 per project or \$25,000 per new full-time permanent job created or retained.
- **Interest Rate:** The bank determines the interest rate, but it cannot exceed prime plus 2%.
- **Term:** The term of a CDBG-guaranteed loan cannot exceed:
 - three to five years for permanent working capital;
 - five to ten years for machinery and equipment; and
 - seven to fifteen years for real estate.
- **Collateral:** Any available collateral should be secured, including personal guarantees for closely held companies, and/or corporate guarantees, as applicable. Personal guarantees are required for owners of more than 20% of the company. Equity injection for start-up projects is at least 20% to 30%.
- **Costs:** Any administrative, legal or closing costs must be paid by the business.

SPECIAL PROGRAM REQUIREMENTS

- **LMI Employees:** At least 51% of the new jobs to be created must be taken by persons considered “low to moderate income” (LMI).
- **Prevailing Wage Requirement:** If loan proceeds are used for the financing of building construction or the installation of machinery, prevailing wages must be paid to the employees of the contractors.

CONTACT

Missouri Department of Economic Development
Business Finance
301 West High Street, Room 770
P.O. Box 118
Jefferson City, MO 65102
Phone: 573-751-0717 Fax: 573-751-8480
E-mail: dedfin@ded.mo.gov

ADDITIONAL RESOURCES

Go to the department’s home page at www.missouridevelopment.org to obtain guidelines and forms for the CDBG Loan Guarantee program as well as a wealth of information regarding Missouri’s many other economic development programs and policies.